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**FISCAL IMPACT STATEMENT**

**LS 6865**

**BILL NUMBER:** SB 260

**NOTE PREPARED:** Mar 1, 2006

**BILL AMENDED:** Feb 21, 2006

**SUBJECT:** Various property tax issues.

**FIRST AUTHOR:** Sen. Kenley

**FIRST SPONSOR:** Rep. Espich

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** *Reassessment of Sold Lots:* This bill specifies when a lot or tract held for sale in the ordinary course of trade or business may be reassessed for property tax purposes.

*Instructions for Sales Disclosure Forms:* The bill provides that information regarding certain property tax benefits available to owners of single family residential property must be included in the instructions for completing the sales disclosure form.

*Utility Appeals:* This bill adjusts the procedure for a public utility company to appeal a distributable property assessment.

*Personal Property Tax Abatement Deduction:* For depreciable personal property eligible for tax abatement and subject to the 30% minimum valuation limitation, the bill specifies the amount of assessed value (AV) used to compute the deduction.

*Failure to Act on Appeal of Unit Budget:* This bill allows a taxpayer that initiated an appeal to the DLGF of a political subdivision's budget, rate, and levy to seek judicial review if the DLGF fails to act on the appeal in a timely manner.

*Amendments to Certified Statements:* The bill allows the county auditor to amend assessed valuation (AV) information provided to the DLGF and political subdivisions that is used to set property tax rates.

*Board of Tax Review Decisions:* It provides that when a county auditor receives notice of a decision by the

Board of Tax Review (IBTR) in an appeal from a decision by a county property tax assessment board of appeals (PTBOA) or the DLGF, the county auditor (instead of the IBTR) shall distribute copies of the decision to taxing units for which the assessed value of the appealed items is at least 1% of the total gross certified assessed value of the taxing unit. The bill provides that in an appeal from a decision of a local assessing official or a PTBOA, the IBTR may subpoena witnesses and documents.

*Failure to Act on an Appeal from DLGF action:* This bill provides that if the Board of Tax Review fails to render a decision in an appeal from an action of the DLGF, the entity that initiated the appeal has the option of waiting for a DLGF decision or requesting judicial review.

*DLGF Rules for Assessment:* The bill provides that the DLGF rules for assessment of real property are not required to include instructions for determining depreciation or reproduction cost.

*Certified Assessed Value:* This bill permits property tax rates to be calculated using a reduced assessed value for property to reflect the effects of pending property tax appeals.

*Maximum Levy Banking:* The bill bases a civil taxing unit's maximum property tax levy on the greater of the unit's maximum levy or actual levy for the previous year.

*Maximum Levy Appeals:* The bill allows certain growing civil taxing units to appeal for an excessive property tax levy.

*Deadline for Property Tax Related Filings:* This bill changes the annual deadline for filing for various property tax benefits. It also specifies when returns, other documents, and property tax payments are considered to be received.

*Levy Excess Fund:* The bill exempts delinquent tax collections from deposit in the excess levy fund.

*Abatement Filing Compliance:* The bill permits a designating body to waive errors in tax abatement forms and noncompliance with filing dates.

*Residential Property Rehabilitation Phase-in Deduction:* This bill establishes a property tax deduction that phases in the increased assessed value from rehabilitation or enlargement of residential real property.

*Property Tax Investment Deduction:* The bill provides that the investment deduction for personal property does not apply to certain personal property.

*Hospital Funding:* This bill allows a county to impose a separate property tax levy that is subject to the county's levy limits to compensate a county hospital for providing emergency medical services.

*Homestead Credits for Partially Completed Homesteads:* This bill allows an individual to claim a homestead credit for a partially completed dwelling that the individual intends to use as the individual's principal place of residence.

*TIF Adjustment:* The bill provides that the base assessed value of property in a tax increment financing allocation area is adjusted each time an annual adjustment is made.

*Class Action Suits Against the DLGF:* The bill states the requirements for maintaining a class action suit against the DLGF.

*Personal Property Assessment Errors:* This bill permits an assessment for undervalued or omitted property to be offset against certain overpayments of tax liability.

*County Special Nonreverting Fund.* The bill permits a county auditor to establish a special nonreverting fund to receive additional property taxes attributable to a contract for the discovery of property that has been undervalued or omitted from assessment.

*School Pension Bonds:* This bill allows a school corporation to petition the DLGF requesting approval to incur bond indebtedness to implement solutions to contractual retirement or severance liability.

*Tax Credits and Exemptions:* The bill also allows credits, deductions and exemptions for certain taxpayers.

**Effective Date:** May 10, 2005 (retroactive); January 1, 2006 (retroactive); Upon passage; July 1, 2006; January 1, 2007.

**Explanation of State Expenditures:** *Instructions for Sales Disclosure Forms:* The DLGF must adjust the sales disclosure form to include information regarding certain property tax benefits available to owners of single family residential property. The DLGF will be able to accomplish this task with existing resources.

*Utility Appeals.* This bill adjusts the procedure for a public utility company to appeal the distributable property assessment of the Department of Local Government Finance (DLGF) to the Board of Tax Review (IBTR).

Under existing law, within ten days after a public utility company receives the notice of the DLGF's tentative assessment, the company may file with the DLGF its objections to the tentative assessment and demand that the DLGF hold a hearing on the tentative assessment. If the public utility does not file with the DLGF its objections within the time allowed, the tentative assessment is final and may not be appealed. A taxpayer may appeal a DLGF final assessment to the IBTR only if the taxpayer first objected to the tentative assessment.

The bill provides that (1) the taxpayer may request a preliminary conference (and not a hearing) with the DLGF within the 10 day period, (2) the DLGF may hold a conference at their option, and (3) the utility may appeal a final determination to the IBTR regardless of whether the taxpayer objected to the tentative assessment. These provisions could result in the DLGF conducting fewer formal appeals and the Board of Review processing more appeals. The specific impact is indeterminable and will depend on the number and nature of objections and appeals that result after the provisions take effect relative to the number and nature that would occur under existing law. The DLGF and the Board of Review should be able to cover any additional costs given their existing resources.

*Failure to Act on Appeal of Unit Budget:* The bill provides that a taxpayer who signed the statement filed to initiate an appeal of a county board of tax adjustment's action on a taxing unit's budget may appeal for judicial review if the DLGF fails to act on the appeal. The provision may result in more cases before the Tax Court which would increase administrative expenses for the court and decrease expenses for the DLGF.

*Board of Tax Review Decisions:* It provides that when a county auditor receives notice of a decision by the Board in an appeal from a decision by a county property tax assessment board of appeals (PTBOA) or the DLGF, the county auditor (instead of the Board) must distribute copies of the decision to taxing units for which

the AV of the appealed items is at least 1% of the total gross certified AV of the taxing unit. This provision will reduce expenditures for the DLGF.

*DLGF Rules for Assessment:* The bill eliminates the requirement that the DLGF's rules and instructions for determining the assessment of real property must include instructions for determining depreciation and the cost of reproducing improvements.

Real property is assessed on a market-like basis. The assessment rule (manual) requires that the assessor determine a market-related value. The means by which the value is determined is left up to the assessor. One accepted method has been to determine a value under the "cost less depreciation" method (the former assessment method) and then applying a sales factor for the neighborhood to approximate market value. The required instructions in the current rule govern this method. Costs for the manual for the 2003 reassessment are listed in the following table.

Appraisal Research Corporation contract to develop cost tables	\$122,500
Consulting contract w/Joe Beres; developer of original tables in 1970's	25,000
International Association of Assessing Officers contract to review manual	50,000
Contract w/Avalon Group for technical writing and desktop publishing	50,000
Marshall and Swift Publications licensing fee for use of cost figures (4yr. license)	240,000
Printing of manual	50,000
Staff costs for DLGF staff	unknown
TOTAL	\$537,500

*Maximum Levy Banking:* Beginning in CY 2007, if the provision to allow the "banking" of unused maximum levies increases or reduces levy amounts in a year then, subject to appropriation, state expenditures for PTRC and homestead credits would also be increased or reduced.

*Residential Property Rehabilitation Phase-in Deduction:* This bill could have an impact on the state's expenditure for PTRC and Homestead Credit. If the growth of residential property is slowed, then the growth in PTRC and Homestead Credit expenses could also be reduced. However, if rehabilitation work increases as a result of the proposal, then the growth in PTRC and Homestead Credit expenses could increase. All changes in PTRC and Homestead Credit expenditures are subject to the statutory minimum guarantee and the appropriation amount in a given year.

*Homestead Credits for Partially Completed Homesteads:* This bill allows an individual to claim a homestead credit for a partially completed dwelling that the individual intends to use as their principal residence. The credit would be prorated, based on the later of (1) the construction start date or (2) the date transferred to the individual claiming the credit, all relative to the assessment date. (Number of months between construction start or transfer date and assessment date, divided by 12). For example, if the construction began in September and the property was transferred in December but not completed by March 1, the taxpayer would receive 25% of the homestead credit (3 months from December transfer to the March assessment date, divided by 12 equals 25%). Subject to appropriation, this provision could increase the state's Homestead Credit liability by an unknown but most likely small amount.

*Class Action Suit Against the DLGF.* The bill provides that a class action suit against the DLGF may not be maintained in any court, including the Indiana Tax Court, on behalf of a person who has not complied with certain requirements before the certification of the class. This provision may result in fewer class action suits against the DLGF. The fiscal impact is not expected to be significant.

**Explanation of State Revenues:** *Reassessment of Sold Lots:* The State levies a small tax rate for State Fair and State Forestry. Any delay in the addition of assessed value (AV) to the tax base will delay increases in property tax revenue for these two funds.

*Utility Appeals:* Adjusting the appeal process could result in a change in the overall state AV. Any change in utility AV will change the property tax revenue for State Fair and State Forestry.

**Explanation of Local Expenditures:** *Amendments to Certified Statements.* After the county auditor sends a certified statement to each political subdivision pertaining to property tax information and before the DLGF certifies its action to the political subdivision, the county auditor may amend the information concerning AV that was included in the earlier certified statement. The county auditor must send an amended certified statement to each political subdivision affected by the amendment and the DLGF. Before the county auditor makes an amendment, the county auditor must provide an opportunity for public comment on the proposed amendment at a public hearing. The county auditor must also give notice of the hearing and must also notify the county assessor. However, the county auditor is not required to hold a public hearing if the amendment is proposed to correct a mathematical error made in determining AVs, if the auditor is adding omitted property discovered after the certified statement was sent, or if the auditor determines that the amendment will not result in an increase in the tax rate. These provisions will have an impact on local administrative expenditures; however, the specific impact is indeterminable and will depend on the number and nature of amendments that county auditors make to certified statements.

*Board of Tax Review Decisions:* The bill provides that when a county auditor receives notice of a decision by the Board of Tax Review in an appeal from a decision by a PTBOA or the DLGF, the county auditor (instead of the Board) must distribute copies of the decision to taxing units in certain circumstances. This provision will increase expenditures for counties.

*County Special Nonreverting Fund.* The bill permits a county auditor to establish a special nonreverting fund to receive additional property taxes attributable to a contract for the discovery of property that has been undervalued or omitted from assessment. If funds are not budgeted for payment of services performed under a contract for the discovery of property that has been undervalued or omitted from assessment, the county auditor may create a special nonreverting fund in which the county treasurer may deposit the amount of taxes, including penalties and interest, after credits, that result from additional assessments on undervalued or omitted property collected from all taxing jurisdictions in the county. The fund remains in existence during the term of the contract. Distributions made from the fund must be made only for refunds due to taxpayers as a result of the contract and contract fees and other costs related to the contract. After these payments have been made and the contract has expired, the county auditor must distribute money remaining in the fund to the appropriate taxing units.

**Explanation of Local Revenues:** *Reassessment of Sold Lots:* Under existing law, farmland is assessed at a lower rate (currently \$880 per acre multiplied by a productivity factor) than the rate at which residential, commercial, or industrial property is assessed. If the land is transferred from agricultural land to a developer and is subdivided into lots, the land may not be assessed until the next change of title. Typically, the title is

transferred to a residential, commercial, or industrial user, but it could be transferred to another developer. Current law also requires that the land would be re-assessed if it is re-zoned. It is possible under current law, that the developer could still own the land when it is re-zoned. A case was brought before the Tax Court. The Tax Court determined that the law was ambiguous and that the land should be reassessed when the land is re-zoned regardless of who owned it.

Regardless of whether the land has been re-zoned, the bill provides that in the case of land in a developer's inventory (whether it be the initial developer or not), the land may not be reassessed until the next assessment date following the earlier of the following dates: (1) The date on which land is transferred to a non-developer; (2) the date on which construction begins; or (3) The date on which the building permit is issued.

The impact of the bill will be to delay the addition of the land's AV as residential, commercial, or industrial land to the tax rolls, which will result in lower overall AV until the land is reassessed from agricultural to residential, commercial, or industrial. The delays would also delay a shift of the property tax burden from the owners of land that is assessed as agricultural to all taxpayers in the form of an increased tax rate.

Total local revenues, except for cumulative funds, would not be affected. The delay in increasing the AV will delay any increase in revenue that cumulative funds would experience because of the increase in AV that would be experienced when the land is reassessed from agricultural land to residential, commercial, or industrial. The delay would equal the product of the fund rate multiplied by the difference in AV resulting from the reassessment.

*Certified Assessed Value:* Prior to 2004, it was common practice for county auditors to keep the AV of certain assessments under appeal separated from other property on the tax duplicate. This AV was not considered in the county auditor's certification of AV for use in fixing tax rates. SEA 1 - 2004 removed county auditors' authority to reduce the certified AV to compensate for appeals.

Beginning with property taxes paid in CY 2007, this bill would allow county auditors to reduce a taxing unit's certified AV only to adjust for reduced tax collections that will result from successful assessment appeals. The reduction would be limited to the lesser of (1) 2% of the unit's AV or (2) the total amount of reductions for successful appeals applied in the previous year.

When assessed value is removed from the AV certification, the tax rate is increased in order to generate the desired certified levy. When tax bills are calculated, the tax rate is applied to all AV, including the amount removed from certification. This generally results in a larger charged levy (or abstract levy). Some of this abstract levy may not be collected due to successful appeals. If the amount of AV removed from certification is too low, then the tax rate is set too low and the unit suffers a revenue shortfall. However, if too much AV is removed, then the tax rate is set too high, generating too much property tax revenue. Taxing units may not spend more than 100% of their certified levies. Collections over 100% of certified levy must be deposited into the Levy Excess Fund. Money in this fund may only be used to pay tax refunds and to reduce future tax levies.

*Maximum Levy Banking:* Prior to 2004, civil taxing unit maximum permissible levies were calculated each year by multiplying the previous year's maximum levy by the six-year average increase in Indiana nonfarm personal income (limited to 6% with some exceptions). A taxing unit that did not use all of its maximum levy in a year never lost the unused amount from its base. Under SEA 1 - 2004, the calculation for the maximum levies was changed so that the new maximum levy is equal to the previous year's actual levy rather than the maximum levy. This change removed the previously unused portion of maximum levies from the base and eliminated any

"banking" of unused levy authority in the future.

This bill would restore the old maximum levy calculation and the "banking" of unused levy authority beginning with taxes payable in 2007. Maximum levy authority that was lost in a year prior to 2007 would not be restored by this provision. This provision would only affect maximum levies going forward.

This provision could have one of two effects, depending on the taxing unit. First, some units probably levy their maximum amount each year even if it is not needed so that the unit does not lose that levy authority. For these units, this provision could result in lower levies in years when the unit does not need the entire levy. Second, some units levy only what they need to levy, regardless of the fact that unused levy authority is lost. For these units, this provision could result in higher levies in years when the unit decides to take advantage of their unused authority.

In all cases, if a unit elects to use previously unused levy authority in a specific year, then taxpayers would be faced with a larger than normal increase in the tax rate in that year. If the unit has unused levy authority, the unit's tax rate growth might have been nominal up until the year that the unit uses the banked levy amount.

*Maximum Levy Banking - Background:* Not including welfare funds, the unused portion of maximum levies totaled \$354 M in CY 2002 from 1,431 civil units, school transportation, and township fire funds. The CY 2003 unused maximum levy was \$251 M from 1,455 units and funds. In CY 2004, the first year of the new maximum levy calculation, the unused maximum levy was \$77 M from 826 units and funds. In CY 2005, the unused maximum levy was \$87 M from 505 units and funds. In CY 2004 and CY 2005, this unused levy authority was lost. (The unit counts only include units where the unused maximum levy was at least 1% of the total maximum levy. The unused maximum levy amounts include all units and funds except welfare.)

*Maximum Levy Appeals:* Under this provision civil taxing units would be permitted to appeal for an excessive property tax levy if the unit's assessed valuation is growing faster than the statewide average assessed valuation for similar units. The possible increase in the unit's maximum levy would be limited to (1) the amount by which the unit's AV growth percentage exceeds the statewide average growth for similar units; multiplied by (2) the following percentage: (A) 50% if the unit's total tax rate exceeds the average total tax rate for similar units; or (B) 100% if the unit's total tax rate does not exceed the average rate.

Currently a civil taxing unit's maximum levy each year equals the previous year's actual levy multiplied by the six-year average growth in Indiana non-farm personal income. The growth factor (AVGQ) is 3.9% in 2006. The AVGQ is appealable to the DLGF if the growth in assessed value for a unit is at least 3% higher than the AVGQ. So, some very fast-growing taxing units may already qualify for relief through this mechanism.

The proposed levy appeal would affect those fast-growing taxing units that are not growing fast enough to trigger the current AVGQ appeal.

The amount of potential additional levies under this provision is unknown.

*Deadline for Property Tax Related Filings:* The bill changes the annual deadline for filing for various property tax deductions and exemptions from May 10<sup>th</sup> to June 10<sup>th</sup>. It specifies when returns, other documents, and property tax payments are considered to be received for purposes of property tax statutes containing filing or payment deadlines. County auditors must currently certify net assessed values to taxing units by August 1.

In addition, some personal property exemption applications must currently be filed with the personal property return. The return must be filed by May 15<sup>th</sup>, or June 14<sup>th</sup> with an extension. Amended returns may be filed for up to six months past the original due date, or the extended due date if an extension was granted. This bill would require all personal property exemption applications to be filed by June 10<sup>th</sup> of each year, regardless of whether the return is filed under extension or if the return is an amended return.

*Levy Excess Fund:* Under current law, property tax collections that exceed 100% of a taxing unit's certified levy must be deposited into the unit's levy excess fund. Money in this fund may only be used to pay tax refunds and to reduce future tax levies. This provision would exclude delinquent tax collections from deposit in the excess levy fund.

If a taxing unit's tax collections, including delinquent tax collections, exceed 100% of the levy, then this provision would result in more spendable money for the unit and less money used for levy reduction. However, If a taxing unit's tax collections, including delinquent tax collections, do not exceed 100% of the levy, then this provision would have no impact.

The total levy excess fund amount that was used to reduce property tax levies in 2005 was \$25.6 M. The amount of delinquent tax collections in the \$25.6 M excess levy is unknown.

*Abatement Filing Compliance:* Under this provision, a designating body may, by resolution, waive noncompliance in the filing of tax abatement forms if (1) the compliance issue involves filing dates, signatures, or mathematical errors and (2) the taxpayer otherwise qualifies for the deduction. A deduction under this provision may be applied in a subsequent year if application in the current year would cause a delay in tax billing or an undue burden on a taxing unit. The fiscal impact would depend on local action.

*Residential Property Rehabilitation Phase-in Deduction:* Under this provision, the increase in assessed value (AV) resulting from the rehabilitation or enlargement of residential real property improvements would qualify for property tax deductions over a period of three years. The deduction would be available for both homesteads and non-homestead residential property (1-3 units). It would first apply for taxes payable in 2008

The deduction would equal 75% of the AV increase in the first assessment year, 50% in the second year, and 25% in the third year. The deduction would not be available after the third year.

Taxpayers would not be permitted to claim more than one deduction for which the rehabilitation or addition may qualify. So, for example, a taxpayer could not claim both a regular abatement and this deduction on the same project. This restriction would not limit the available deductions on the existing property such as the standard, mortgage, blind/disabled, and veterans deductions.

Taxpayers seeking the deduction would have to file a claim for the deduction with the county auditor before May 11 in each year that the taxpayer wishes to claim it. The deduction would be transferrable to a new owner if the property is sold.

The proposed deduction would slow the growth of residential real property AV as it applies to rehabilitations and enlargements. If there is an increase in rehabilitation activity because of the availability of the deduction, then the additions would provide for an increase in the tax base.

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Tax shifts between existing and rehabilitated or enlarged property. Generally speaking, the addition



of assessed value to the tax base provides a tax shift from existing property to new or rehabilitated property by spreading the tax levy over a larger tax base. The proposed deduction would slow the shift from all property to residential property. The shift could, however, be accelerated if rehabilitation work increases as a result of the proposal.

Tax shifts between property classes. The varying rates at which assessed values in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for residential property AV is affected by this bill will determine whether any tax shifts will occur between classes. Assuming that the property would have been rehabilitated or enlarged regardless of the deduction, this bill would shift some taxes from residences to other property classes. However, if rehabilitation work increases as a result of the proposal, then taxes would shift to residences.

*Personal Property Tax Abatement Deduction:* Under current law, new manufacturing, research and development, and logistic equipment may qualify for property tax abatements. The abatement is equal to the property's AV multiplied by a percentage according to a schedule.

Under this provision, if the taxpayer is subject to the 30% minimum valuation floor, the property's AV used in the abatement calculation would equal (1) the new property's AV without regard to the assessment floor multiplied by (2) the ratio of the taxpayer's total AV with the floor divided by the taxpayer's total AV without regard to the assessment floor.

Example: A taxpayer's new property AV without regard to the 30% floor is \$100,000. The total cost of all of the taxpayer's property in the taxing district is \$1,000,000 and the total AV without regard to the assessment floor is \$200,000. Under current law in this example, the taxpayer's total taxable AV would be \$300,000 (because of the 30% floor). The AV of the new property used in the abatement calculation would be \$100,000. According to the bill, the AV of the new property used in the abatement calculation would be \$150,000 ( $\$100,000 \text{ no floor AV} \times [\$300,000 \text{ total floor AV} / \$200,000 \text{ total no floor AV}]$ ).

The value of abatements would increase for those taxpayers who are subject to the 30% valuation floor. The impact would depend on a combination of (1) the level of assessments in relation to the 30% floor for taxpayers with abatements and (2) the value of the abatements. No deference is given as to whether the assessed value (without the floor) of just the new property is at or below 30%.

An increase in the value of abatements would reduce total AV causing a shift of part of the property tax burden from the abated taxpayers to all taxpayers via an increased tax rate. Property tax revenues would be reduced for cumulative funds and other funds with fixed tax rates.

*Property Tax Investment Deduction:* Under current law, the increase in AV from certain real and personal property additions may qualify for property tax deductions over a period of three years if the property owner creates or retains jobs because of the project. The deduction applies to property that is first assessed on March 1, 2006, 2007, 2008, or 2009.

This bill would exclude personal property located in the following facilities: golf courses, country clubs, massage parlors, tennis clubs, racetracks, package liquor stores, residential property unless it is low income or in a residentially distressed area, or facilities for skating, racquet sport, hot tubs, suntans, retail food and beverage sales, automobile sales or service, or other retail facilities. These facilities may not receive real property abatements under current law. The change would be retroactive and would apply to the March 1, 2006

assessment date.

*Hospital Funding:* This provision would permit the governing board of a county hospital to request support from the county to cover qualified emergency medical expenses. The support would be via an appropriation from the county general fund or from a countywide property tax levy from a separate fund with a rate not exceeding \$0.06 per \$100 AV. The total 2005 net assessed value was \$269.4 B. The full \$0.06 tax rate, if imposed in every county, would generate approximately \$161 M. The levy could not exceed the hospital's qualified emergency medical expenses. A levy for this purpose would be subject to maximum levy limitations, so no additional property taxes could be raised. If a county imposes a levy under this provision, then it would have to reduce other county levies to stay within the maximum levy limit. This provision would not change total county revenues. It would only allow the county to choose to redirect some of its resources.

*Homestead Credits for Partially Completed Homesteads:* If homestead credits are granted to owners of partially completed residential property intended to be used as a principal residence, these properties would also qualify for the standard deduction (lesser of \$35,000 or  $\frac{1}{2}$  of gross AV). This provision could slightly reduce the assessed value base.

*TIF Adjustment:* Under current law, the base value of each TIF district is adjusted to neutralize the effect of each general reassessment. Under this provision, the base AV would also be adjusted each year to neutralize the effect of annual adjustments.

*Personal Property Assessment Errors:* Under this provision, local assessing officials would be required to adjust personal property assessments and process refunds or credits if a taxpayer overreporting error is discovered during a review regarding potential undervalued or omitted property. This provision could increase refunds which in turn reduce property tax collections in the current year.

*County Special Nonreverting Fund.* The bill permits a county auditor to establish a special nonreverting fund to receive additional property taxes attributable to a contract for the discovery of property that has been undervalued or omitted from assessment. This provision could result in taxing units receiving additional money if money remains in the fund after required payments are made. The county auditor is required to distribute money remaining in the fund to appropriate taxing units. The specific impact is indeterminable.

*School Pension Bonds:* This bill provides that a school corporation that issued bonds to cover retirement or severance liability under a prior statute (which was repealed on December 31, 2004) may issue bonds one additional time for that purpose if the first bond issue was approved by the DLGF before April 14, 2003. (Current law permits a second bond issue only if the first bonds were actually issued before April 14, 2003.) The bill provides that the additional bonds must be issued before January 31, 2007.

An additional bond would be based on existing unfunded contractual liability for retirement or severance payments as of June 30, 2001. The school must reduce the Transportation Fund, School Bus Replacement Fund, Capital Projects Fund, or Art Association and Historical Society Funds in an amount equal to the property tax levy needed to retire the pension or severance bonds. The pension bonds would be subject to the petition and remonstrance process. The bill would probably have minor impact on pension bonding of schools. To qualify, a school would have had to have the bonding approved but not issued the bond by the April 14, 2003, deadline.

*Background:* About 241 pension bonds worth over \$1.2 B have been approved by the Department of

## Local Government Finance.

*Tax Credits and Exemptions - Utility Tax Credit:* Under current law, a public utility must self-report the assessed value of its distributable property to the DLGF. The DLGF sends a notice of tentative assessment to the taxpayer based on the return and any changes made by the DLGF. The utility may object to the tentative assessment within 10 days of receiving the notice. The assessment becomes final if no objection is filed within the 10 day period. There are no provisions for a public utility company to file an amended return. The DLGF apportions the distributable property valuation among the taxing districts in which the utility has property.

Under this provision, the DLGF would accept the assessment listed on a water utility's amended 2005 payable 2006 return if (1) the return has already been filed, (2) the amended return is correct, and (3) the assessed value on the amended return is less than the original assessment.

The taxpayer would still be required to pay the full amount of the tax due on the original return in 2006, but would receive a credit for the overpayment in 2007. The county auditor would reduce certified assessed values in 2007 to increase the tax rate so that the credit will not cause a revenue shortfall for local units. This creates a shift in 2007 from the utility taxpayer to all taxpayers. However, the utility's over-assessment under current law caused a shift from all taxpayers to the water utility.

The credit amount was estimated based on assessed values provided by the taxpayer and 2005 tax rates. If the values are different or if the rates are significantly different in 2006, then the actual credit would deviate from this estimate. The total AV could be reduced by \$31.6 M, from \$70.7 M to \$39.1 M. The assessment (and assessment reduction) is distributed to seven taxing districts, six in Allen County and one in Whitley County. The total credit is estimated at \$650,000.

*Tax Credits and Exemptions - Foundry Abatement:* This provision would retroactively grant property tax abatements to a Grant County taxpayer that operates a grey iron foundry. The abatements would be granted for taxes payable in 2001, 2002, 2003, and 2004 if the taxpayer applied in 2001 for the deductions and the deductions were denied by the DLGF. The taxpayer would be entitled to file refund claims for taxes paid on the abatement amounts. The total net tax that would be refunded under this provision is estimated at \$150,000. This refund would result in a reduction of property tax revenues for the taxing units that serve the taxpayer in the year in which the refund is paid.

*Tax Credits and Exemptions - Missed Exemption:* This provision would grant an exemption to an organization in Marion County that filed a tax exemption application in 2004 but failed to attend the exemption hearing held by the county property tax assessment board of appeals. The exemption would be allowed at the same percentage that was granted for a tax exemption application filed in 2005.

The number of taxpayers in Marion County that missed their 2004 exemption hearings and could receive an exemption under this provision is not currently known. If the taxpayer paid the tax due in absence of the exemption, then the county would have to refund the tax paid. Property tax refunds reduce current year property tax collections in the current year.

**State Agencies Affected:** Department of Local Government Finance; Indiana Board of Tax Review; Tax Court; State Forestry; and State Fair.

**Local Agencies Affected:** All.

**Information Sources:**

**Fiscal Analyst:** Bob Sigalow, 317-232-9859; Chuck Mayfield, 317-232-4825; Bernadette Bartlett, 317-232-9586.